



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
CHIEF DEPUTY

June 27, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *tm*
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY AND REVIEW
OF THE TREASURY OVERSIGHT COMMITTEE'S COMPLIANCE WITH
GOVERNMENT CODE REQUIREMENTS FOR THE YEAR ENDED
JUNE 30, 2004**

California Government Code Sections 26920 and 26922 require annual audits of the assets of the County Treasury, with an opinion on whether the Treasurer's statement of assets is presented fairly and in accordance with generally accepted accounting principles. We contracted with Macias, Gini & O'Connell LLP (Macias), Certified Public Accountants, to perform the audit of the financial statements of the Los Angeles County Treasury for the year ended June 30, 2004. The audit was conducted by Macias under the Auditor-Controller's Master Agreement.

Macias issued an unqualified opinion on the Treasurer's financial statements, indicating the statements are presented fairly, in conformity with accounting principles generally accepted in the United States of America. As part of the audit, Macias reviewed the Treasurer's internal controls over financial reporting and identified no material weaknesses. Macias also prepared a management letter (attached), which includes recommendations related to the issuance of the Treasury quarterly reviews, and the documentation related to certain investment activities. Both the Treasurer and Auditor-Controller have addressed these matters.

Macias also examined the Treasurer's compliance with Government Code Sections 27130 through 27137, which address the operations of the Treasury Oversight Committee, from July 1, 2003 through June 30, 2004. Macias noted no matters involving non-compliance with the County's Investment Policy.

Macias' reports are attached. Please call if you have any questions, or your staff may call Jim Schneiderman at (626) 293-1101.

JTM:MMO:JLS:TK

Attachments

c: David E. Janssen, Chief Administrative Officer
Mark J. Saladino, Treasurer and Tax Collector
Sachi A. Hamai, Executive Officer
Public Information Office
Audit Committee

**Los Angeles County
Treasury**

Financial Statements

For the Fiscal Year Ended June 30, 2004

**LOS ANGELES COUNTY TREASURY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (unaudited).....	3
Statement of Net Assets	9
Statement of Changes in Net Assets.....	10
Notes to the Financial Statements	11
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18
Independent Accountant's Report on Compliance with California Government Code Sections 27130 through 27137.....	20



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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Treasury and do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8, the Treasury restated its 2003 net assets during the current year to record interest receivable and to record certain assets at fair value in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, the Treasury changed its presentation of certain assets previously reported in an agency fund in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2007, on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
March 6, 2007

**Los Angeles County Treasury
Management's Discussion and Analysis
June 30, 2004**

Unaudited

The Los Angeles County Treasury (Treasury) maintains two investment portfolios, the External Investment Pool (Pool) and the Specific Purpose Investment (SPI) portfolio. The Treasury manages the Pool, on behalf of Pool participants, through the authority delegated to it annually by the Los Angeles County Board of Supervisors. The primary objective of the Treasury's investment policy is to ensure the safety of principal. The secondary objective is to meet the liquidity needs of the Pool and SPI participants. The third objective is to achieve a return on funds invested. The Treasury accomplishes these objectives through the purchase of high quality fixed income investments, held to a designated maturity.

Mandatory Pool participants include the County, local school and community college districts, and the Courts. There were approximately 1,700 Pool participants at the year ended June 30, 2004. The Treasury also maintains a SPI portfolio to manage specific investment objectives of certain Pool participants and other voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

Other Specific Investments represents assets held by the Treasury pursuant to State Code or a court order.

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the fiscal year ended June 30, 2004. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2004.

Financial Highlights

- The Pool's total net assets at June 30, 2004 were \$15.5 billion, an increase of \$1.4 billion (10.04%) over the year ended June 30, 2003.
- The Pool's total assets of \$15.7 billion at June 30, 2004 exceeded total liabilities by \$15.5 billion.
- The investment income of the Pool decreased \$53.9 million (19.69%) from \$273.6 million for the year ended June 30, 2003 to \$219.7 million for the year ended June 30, 2004. Although cash and investments remained at prior year levels or higher, the yield on investments declined from 2.16% in the prior year to 1.33% in the current year. This was primarily due to historically low interest rates in fiscal year 2004.

- The fair value of the Pool showed an unrealized loss of \$44.4 million (.28% of portfolio fair value) at June 30, 2004 compared to an unrealized gain of \$24.2 million (.17% of portfolio fair value) at June 30, 2003.
- The Pool's allowable administrative expenses totaled \$7.1 million for the year ended June 30, 2004. This represented approximately 4.6 basis points of the average daily invested balance for the year. This ratio was consistent with the ratio for 2003.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Treasury's basic financial statements. The Treasury's basic financial statements consist of two components:

- 1-A) Statement of Net Assets, 1-B) Statement of Changes in Net Assets
- 2) Notes to the Basic Financial Statements.

The Statement of Net Assets presents information on the Pool's, SPI's and Other Specific Investments assets and liabilities, with the difference between the two reported as net assets.

The Statement of Changes in Net Assets presents information on how the Pool's, SPI's and Other Specific Investments' net assets changed during the most recent fiscal year.

Statement of Net Assets

The Pool's net assets were \$15.5 billion at June 30, 2004, an increase of \$1.4 billion (10.04%) from the prior year ended June 30, 2003. SPI net assets were \$984 million, a decrease of \$1.049 billion (51.60%) from the prior year. Other Specific Investment net assets were \$201.9 million, an increase of \$158.4 million (363.37%) from the prior year.

The 2004 Interest Receivable balances for the Pool and SPI includes \$39.4 million and \$6.2 million, respectively, in accrued interest. The Treasury recorded an adjustment to the beginning net assets balance for the fiscal year ended June 30, 2003 to include interest receivable for the Pool and SPI of \$32.9 million and \$9.1 million, respectively, as interest was earned and receivable at June 30, 2003 and should have been recorded as an asset under the accrual basis of accounting.

Net Assets

A summary of the net assets is presented below.

Statements of Net Assets				
External Investment Pool				
	2004	2003	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 15,593,420,364	\$ 14,051,655,435	\$ 1,541,764,929	10.97%
Cash	88,944,711	62,295,996	26,648,715	42.78%
Interest Receivable	39,387,997	-	39,387,997	N/A
Total Assets	15,721,753,072	14,113,951,431	1,607,801,641	11.39%
Liabilities				
Trades Payable	190,551,117	-	190,551,117	N/A
Total Liabilities	190,551,117	-	190,551,117	N/A
Total Net Assets	\$ 15,531,201,955	\$ 14,113,951,431	\$ 1,417,250,524	10.04%
Specific Purpose Investment				
	2004	2003	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 978,147,306	\$ 2,033,764,936	\$ (1,055,617,630)	-51.90%
Interest Receivable	6,172,760	-	6,172,760	N/A
Total Assets	984,320,066	2,033,764,936	(1,049,444,870)	-51.60%
Net Assets	\$ 984,320,066	\$ 2,033,764,936	\$ (1,049,444,870)	-51.60%
Other Specific Investments				
	2004	2003	Increase/(Decrease) Amount \$	Percentage
Assets				
Investments at Fair Value	\$ 201,931,994	\$ 43,578,624	\$ 158,353,370	363.37%
Total Assets	201,931,994	43,578,624	158,353,370	363.37%
Net Assets	\$ 201,931,994	\$ 43,578,624	\$ 158,353,370	363.37%

Changes in Net Assets

The additions include contributions by pool participants, investment income and changes in the fair value of investments. Administrative expenses are shown as a deduction to additions to the Pool and to SPI. Deductions represent distributions to pool participants.

Pool

- Contributions by Pool Participants were \$44.08 billion during the year ending June 30, 2004, a decrease of \$2.7 billion (5.77%) from the prior year.
- The investment income of the Pool decreased \$53.9 million (19.7%) from \$273.6 million for the year ended June 30, 2003 to \$219.7 million for the year ended June 30, 2004. Although cash and investments remained at prior year levels or higher, the yield on investments declined from 2.16% in the prior year to 1.33% in the current year. This was primarily due to the fact that the federal funds rate, set by the Federal Reserve, remained steady at 1% during fiscal year 2004, and fixed income markets traded at unprecedented historical low yields. The Treasury's investment objective was to maintain a positive spread to the federal funds rate, while maintaining a shorter weighted average days to maturity (WAM) in anticipation of higher interest rates. Accordingly, the WAM for the Pool was 232 days at June 30, 2004, down from 338 days at June 30, 2003.
- Administrative expenses were \$7.1 million for the year ending June 30, 2004, an increase of approximately \$578,000 (8.82%) from the prior year. This was primarily due to increases in Treasury staff and support costs. The \$7.1 million in total administrative expenses represented approximately 4.6 basis points of the average daily invested balance for the year ended June 30, 2004. This ratio was consistent with the ratio for 2003.
- The fair value of the Pool showed an unrealized loss of \$44.4 million (.28% of portfolio fair value) at June 30, 2004 compared to an unrealized gain of \$24.2 million (.17% of portfolio fair value) at June 30, 2003. Agencies and government securities represented 67% and 59% of the Pool at June 30, 2003 and June 30, 2004, respectively. As previously discussed, due to a very low federal funds rate during 2004, the fixed income markets traded at historically low yields. Accordingly, while agencies and government securities showed an unrealized gain of approximately \$24.5 million at June 30, 2003, they showed an unrealized loss of approximately \$39.2 million at June 30, 2004 as a result.
- Distributions to Pool Participants were \$42.8 billion during the year ending June 30, 2004, a decrease of \$2.6 billion (5.80%) from the prior year.

SPI

- Contributions by Pool Participants, Investment Income and Distributions to Pool Participants declined by \$4.94 billion (86.34%), \$12.72 million (37.07%) and \$2.49 billion (57.39%), respectively. These changes are primarily related to a decrease in new funds managed as SPI investments, lower interest rates, and the liquidation of certain SPI investments by the schools and college districts.

Other Specific Investments

- For the year ended June 20, 2004, we are presenting certain assets held as Other Specific Investments on the Statement of Net Assets and Statement of Changes in Net Assets. In prior years, we presented these assets in an agency fund. Accordingly, for this year, we are not presenting a year over year comparison for discussion purposes. However, we will present comparative information in subsequent years.
- During the year ended June 30, 2004, the Treasury purchased additional assets of approximately \$158 million pursuant to a Court Order.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, additions and deductions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Summaries of the changes in net assets for the Pool, SPI and Other Specific Investments are presented below:

Statements of Changes in Net Assets					
External Investment Pool					
	2004	2003	Increase/(Decrease) Amount \$	Percentage	
Additions					
Contributions by Participants	\$ 44,077,926,283	\$ 46,776,107,729	\$ (2,698,181,446)	-5.77%	
Investment Income	219,730,493	273,593,173	(53,862,680)	-19.69%	
Administrative Expenses	(7,136,295)	(6,558,009)	(578,286)	8.82%	
Net decrease in Fair Value of Investments	(77,717,001)	(6,733,445)	(70,983,556)	1054.19%	
Net Increase from Investment Income	134,877,197	260,301,719	(125,424,522)	-48.18%	
Total Additions	44,212,803,480	47,036,409,448	(2,823,605,968)	-6.00%	
Deductions					
Distributions to Participants	42,828,514,628	45,467,909,004	(2,639,394,376)	-5.80%	
Net Increase (Decrease) in Net Assets	1,384,288,852	1,568,500,444	(184,211,592)	-11.74%	
Net Assets beginning of year	14,113,951,431	12,545,450,987	1,568,500,444	12.50%	
Prior period adjustment	32,961,672	-	32,961,672	N/A	
Net Assets beginning of year, restated	14,146,913,103	12,545,450,987	1,601,462,116	12.77%	
Net Assets end of year	\$ 15,531,201,955	\$ 14,113,951,431	\$ 1,417,250,524	10.04%	

Statements of Changes in Net Assets					
Specific Purpose Investment					
	2004	2003	Increase/(Decrease) Amount \$	Percentage	
Additions					
Contributions by Participants	\$ 782,734,723	\$ 5,728,405,872	\$ (4,945,671,149)	-86.34%	
Investment Income	21,590,678	34,311,252	(12,720,574)	-37.07%	
Administrative Expenses	(196,474)	(87,537)	(108,937)	124.45%	
Net Increase (Decrease) in Fair Value of Investments	(16,329,794)	3,493,068	(19,822,862)	-567.49%	
Net Increase from Investment Income	5,064,410	37,716,783	(32,652,373)	-86.57%	
Total Additions	787,799,133	5,766,122,655	(4,978,323,522)	-86.34%	
Deductions					
Distributions to Participants	1,846,370,775	4,333,409,788	(2,487,039,013)	-57.39%	
Net Increase (Decrease) in Net Assets	(1,058,571,642)	1,432,712,867	(2,491,284,509)	-173.89%	
Net Assets beginning of year	2,033,764,936	601,052,068	1,432,712,868	238.37%	
Prior period adjustment	9,126,772	-	9,126,772	N/A	
Net Assets beginning of year, restated	2,042,891,708	601,052,068	1,441,839,640	239.89%	
Net Assets end of year	\$ 984,320,066	\$ 2,033,764,935	\$ (1,049,444,869)	-51.60%	

Statements of Changes in Net Assets	
Other Specific Investments	
	2004
Additions	
Contributions by Participants	\$ 404,026,113
Investment Income	-
Administrative Expenses	-
Net Increase in Fair Value of Investments	981,580
Net Increase from Investment Income	981,580
Total Additions	405,007,693
Deductions	
Distributions to Pool Participants	246,852,000
Net Increase in Net Assets	158,155,693
Net Assets beginning of year	43,578,624
Prior period adjustment	197,677
Net Assets beginning of year, restated	43,776,301
Net Assets end of year	\$ 201,931,994

LOS ANGELES COUNTY TREASURY
STATEMENT OF NET ASSETS
JUNE 30, 2004

	External Investment Pool	Specific Purpose Investment	Other Specific Investments
Assets			
Treasurer cash	\$ 88,944,711	\$ -	\$ -
Investments:			
Commercial Paper	3,674,496,176	-	-
Corporate and Deposit Notes	253,465,705	-	-
Local Agency Investment Fund	-	62,154,808	-
Los Angeles County Securities	40,538,240	5,539,453	-
Mortgage Trust Deeds	-	1,577,659	-
Negotiable Certificates of Deposit	1,901,063,706	-	-
U.S. Agency Securities	4,433,934,662	684,342,487	-
U.S. Treasury Securities	4,789,921,875	224,532,899	201,931,994
Repurchase Agreements	500,000,000	-	-
Total investments	<u>15,593,420,364</u>	<u>978,147,306</u>	<u>201,931,994</u>
Interest receivable	<u>39,387,997</u>	<u>6,172,760</u>	<u>-</u>
Total assets	<u>15,721,753,072</u>	<u>984,320,066</u>	<u>201,931,994</u>
Liabilities			
Trades Payable	<u>190,551,117</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>190,551,117</u>	<u>-</u>	<u>-</u>
Total Net Assets Held in Trust	<u><u>\$ 15,531,201,955</u></u>	<u><u>\$ 984,320,066</u></u>	<u><u>\$ 201,931,994</u></u>

The accompanying notes are an integral part of these financial statements

**LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET ASSETS
FOR FISCAL YEAR ENDED JUNE 30, 2004**

	External Investment Pool	Specific Purpose Investment	Other Specific Investments
ADDITIONS:			
Contributions by Pool Participants	\$ 44,077,926,283	\$ 782,734,723	\$ 404,026,113
Investment Income:			
Investment Income	219,730,493	21,590,678	-
Administrative Expenses	(7,136,295)	(196,474)	-
Net Increase (Decrease) in Fair Value of Investments	<u>(77,717,001)</u>	<u>(16,329,794)</u>	<u>981,580</u>
Net Increase Resulting from Investment Income	<u>134,877,197</u>	<u>5,064,410</u>	<u>981,580</u>
Total Additions	<u>44,212,803,480</u>	<u>787,799,133</u>	<u>405,007,693</u>
DEDUCTIONS:			
Distributions to Pool Participants	<u>42,828,514,628</u>	<u>1,846,370,775</u>	<u>246,852,000</u>
Net Increase (Decrease) in Net Assets	1,384,288,852	(1,058,571,642)	158,155,693
Net Assets Held in Trust, July 1, 2003	14,113,951,431	2,033,764,936	43,578,624
Prior Period Adjustment	<u>32,961,672</u>	<u>9,126,772</u>	<u>197,677</u>
Net Assets Held in Trust, July 1, 2003, restated	<u>14,146,913,103</u>	<u>2,042,891,708</u>	<u>43,776,301</u>
Net Assets Held in Trust, June 30, 2004	<u><u>\$ 15,531,201,955</u></u>	<u><u>\$ 984,320,066</u></u>	<u><u>\$ 201,931,994</u></u>

The accompanying notes are an integral part of these financial statements

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County (County) Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The County Treasury maintains two investment portfolios, the Pooled Surplus Investment portfolio (the Pool) and the Specific Purpose Investment (SPI) portfolio with approximately \$15.5 billion and \$984 million, respectively, in total assets as of June 30, 2004. The Pool is managed by the County Treasury on behalf of the Pool participants, which include the County, local school districts, and the Courts who are required by State statutes to participate in the Pool. Voluntary participants in the SPI portfolio consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. The Treasury also maintains Other Specific Investments totaling approximately \$202 million at June 30, 2004. These assets are held by the Treasury for both a municipal agency and a private corporation, per State Code and a court order, respectively. The State of California allows the Board of Supervisors the ability to delegate the investment authority to the County Treasury in accordance with Section 53607 of the California Government Code.

Pursuant to Sections 27130-27137 of the California Government Code, the Board of Supervisors (Board) has established a County Treasury Oversight Committee to review and monitor the Treasury's investment policy. The Committee membership includes the Treasurer, Auditor-Controller, Chief Administrative Officer, Superintendent of Schools and a non-County representative. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Treasury's Investment Strategy

The Treasury's investment strategy for the Pool is to maintain the principal and to provide sufficient cash to meet disbursement needs. The cash flow needs of the Pool members are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The Treasury's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

The Specific Purpose Investment portfolio is used to account for the net assets of individual investment accounts, in aggregate. The related investment activity occurs separately from the County's Pool and is provided as a service to pool participants and external investors. The individual investment strategies are targeted for the needs of the requesting entity.

The Other Specific Investments is used to account for the assets placed with the County Treasury pursuant to State Code and court order. The investment activity occurs separately from the County's Pool and the related investment strategies are governed by State Code and court order.

Measurement Focus, basis of accounting and financial statement presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of related cash flows. In accordance with generally accepted accounting principles (GAAP), the Treasury records investment purchases and sales on the trade

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

date. In accordance with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of investments. Fair value is determined monthly. Special disclosures related to GASB 31 appear in Note 3. Pool participants' cash balances and withdrawals are based on amortized cost.

Trades Payable

Trades payable represents pending investment trades that have not settled at June 30, 2004.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from the estimates.

Note 2 – Bank Deposits

As of June 30, 2004, the Treasury maintained accounts in five banks. The carrying amount of the Treasury's total deposits in financial institutions was \$88,548,148 plus \$396,563 in cash in the Treasury's vault. The total balance of deposits in financial institutions was covered by federal depository insurance or collateralized with securities monitored by the State Treasurer's Local Agency Security Program.

Under Government Code Section 53652, each financial institution in California is required to pledge a pool of securities as collateral against all of its public deposits. Depending upon the type of security in the pool, the pool must have a minimum market value of 110 to 150 percent of the total amount of the public deposits.

The Local Agency Security Program of the State of California Department of Financial Institutions confirmed that the pools of collateral related to the Treasury's deposits were maintained at required levels as of June 30, 2004. However, during the year ended June 30, 2004, the Local Agency Security Program indicated that Bank of America did not maintain adequate collateral for up to one week. Bank of America subsequently obtained adequate collateral with no impact on the County.

Note 3 – Investments

Government Code Sections 53601 and 53635 authorize the Treasury to invest the Pool and SPI funds (Notes 5 and 6, respectively) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, negotiable certificates of deposit, medium-term notes, repurchase agreements and reverse repurchase agreements. As permitted by the Government Code, the County Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the County Treasury who reports investment activity to the Board on a monthly basis. The County Treasury also maintains Other Specific Investments which are invested pursuant to State Code and court order.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

Investments held by the County Treasury are stated at fair value, except for certain non-negotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as Repurchase Agreements, Money Market funds, Mortgage Trust Deeds, Certificates of Participation and Collateralized Time Deposits. The fair value of investments is determined monthly and is provided by the custodian bank. The method used to determine the value of participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

The School Districts and the Courts are required by legal provisions to participate in the Pool. The total percentage share of the Pool that relates to these involuntary participants in addition to Los Angeles County and related entities is 89%. The voluntary participants in the SPI portfolio consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The deposits held for these entities are included in the County's Pool and SPI portfolio. Certain specific investments have been made by the County Treasury, as requested by Pool participants and external depositors. This investment activity occurs separately from the Pool and is reported in the SPI portfolio.

Safekeeping Securities

At June 30, 2004 all Pool and SPI investments and Other Specific Investments were safekept by the Bank of New York, Western Trust, except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by Los Angeles County entities, the State of California Local Agency Investment Fund (LAIF) and the mortgage trust deeds.

The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by various branches of Bank of America or by the Treasury.

In accordance with GASB Statement No. 3 - *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the County's investments are categorized to give an indication of the level of custodial credit risk assumed as of June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the agent's nominee name, with subsidiary records listing the County, as the legal owner. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by the counterparty's trust department or agent but not in the County's name.

LAIF, and Mortgage Trust Deeds are not evidenced by securities that exist physically and, per GASB Statement No. 3, are not classified into custodial credit risk categories. The County's Investments are categorized on the following schedule:

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

<u>Pool</u>	<u>Category</u>			<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>
	<u>1</u>	<u>2</u>	<u>3</u>			
Commercial paper	\$ 3,674,496,176	\$ -	\$ -	\$ 3,674,496,176	1.03% - 1.47%	07/01/04 - 01/25/05
Corporate and Deposit Notes	253,465,705	-	-	253,465,705	1.09% - 2.10%	07/08/04 - 11/06/06
Los Angeles County Securities	40,538,240	-	-	40,538,240	1.46% - 4.91%	06/30/05 - 08/01/07
Negotiable Certificates of Deposit	1,901,063,706	-	-	1,901,063,706	1.05% - 1.73%	07/06/04 - 05/03/05
U.S. Agency Securities	4,433,934,662	-	-	4,433,934,662	1.00% - 9.25%	07/15/04 - 12/01/08
U.S. Treasury Securities	4,789,921,875	-	-	4,789,921,875	1.13% - 2.25%	07/31/04 - 04/30/06
Repurchase Agreements	500,000,000	-	-	500,000,000	1.35%	07/01/04
Total Pool Investments	<u>\$ 15,593,420,364</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,593,420,364</u>		

<u>SPI</u>	<u>Category</u>			<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>
	<u>1</u>	<u>2</u>	<u>3</u>			
Los Angeles County Securities	\$ 5,539,453	\$ -	\$ -	\$ 5,539,453	5.00% - 7.00%	01/02/05 - 09/21/21
U.S. Agency Securities	684,342,487	-	-	684,342,487	1.63% - 7.13%	07/15/04 - 06/23/09
U.S. Treasury Securities	224,532,899	-	-	224,532,899	0.95% - 11.25%	07/01/04 - 05/15/16
	<u>\$ 914,414,839</u>	<u>\$ -</u>	<u>\$ -</u>			
Local Agency Investment Fund				62,154,808	-	-
Mortgage Trust Deeds				1,577,659	4.50% - 6.83%	12/01/04 - 04/01/17
Total SPI Investments				<u>\$ 978,147,306</u>		

<u>Other Specific Investments</u>	<u>Category</u>			<u>Fair Value</u>	<u>Interest Rate Range</u>	<u>Maturity Range</u>
	<u>1</u>	<u>2</u>	<u>3</u>			
U.S. Treasury Bills	<u>\$ 201,931,994</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 201,931,994</u>	0.97% - 1.64%	07/01/04 - 12/09/04

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2004 to support the value of shares in the Pool.

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolios are adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

The earned rate, which includes investment income, net of allowable administrative expenses, on all Pool investments held by the County Treasury for the fiscal year ended June 30, 2004 was 1.33%.

The change in fair value of investments consists of both unrealized and realized gains and losses. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of \$5,633,922,617 and \$938,401,533 were sold during the year with a net loss of \$987,265 and \$7,742 for the Pool and SPI, respectively. The net decrease in the fair value of investments for the year ended June 30, 2004 was \$77,717,001 and \$16,329,794 for the Pool and SPI portfolio, respectively. The net increase in fair value for the year ended June 30, 2004 totaled \$981,580 for Other Specific Investments.

Derivatives

The California Government Code and the County Treasury's Investment Policy allow the County Treasury to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate.

The County's Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Pool contained floating rate notes at par of \$350,538,240 (2.27% of the Pool) as of June 30, 2004. The policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the fiscal year ending June 30, 2004, there were none.

Los Angeles County Securities – County Investment Pool

Included in the floating rate notes are Marina del Ray Certificates of Participation (COPs), which were issued by the County to finance Fiscal Year 1992-93 General Fund operations, issuance cost and required reserves. The certificates are payable only from Marina del Ray operating lease revenues and other Marina del Ray associated revenues. These COPs have a variable interest rate, payable semi-annually, with a maturity date of August 1, 2007, and totaled \$15,538,240 at June 30, 2004.

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANS for the Pool, which are floating rate notes. LACCAL is a nonprofit Corporation established by the Board to issue tax-exempt bonds to finance the purchase of certain equipment on behalf of the County. The BANS were created to provide LACCAL with operating cash prior to the sale of financing bonds. LACCAL issues BANS and sells them to the Treasury periodically, based on cash needs.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

As part of the 2003-2004 Debt Management Guidelines, the Board authorized the issuance of an aggregate amount of BANS not to exceed \$65 million. As of June 30, 2004 the Pool had \$25,000,000 invested in LACCAL BANS.

BANS are payable within five years of the purchase date. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated by the end of the five-year period, they convert to capital leases with a three-year term secured by County real property.

Los Angeles County Securities – Specific Purpose Investment (SPI)

As of June 30, 2004, the Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for \$5,455,000 issued on December 2, 1997. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement. Also included is the Calle Del Barco Community Improvement Bond for \$84,453 which was issued in 1979. It earned an interest rate of 7% per annum and matured on January 2, 2005.

In December 1986 and October 1987, the Board of Supervisors approved the disbursing of funds for mortgage trust deeds as part of the settlements of the Flying Triangle and the Abalone Cove landslide litigation. Such disbursements are authorized under Government Code Section 23004, the County's power to compromise and make payment of claims being implicit in the County's power to sue and be sued. Per the Flying Triangle and Abalone Cove settlements, the combined amount of all mortgage loans is not to exceed \$8,500,000.

The trust deeds, which are fully secured, have terms of 15 to 30 years and fixed interest rates of between 5.5% and 6.825%, except for one loan that had a variable rate of 4.5% as of June 30, 2004. They are included with the investments of SPI. As of June 30, 2004, investments of the SPI fund contained \$1,577,659 in mortgage trust deeds.

Note 4 – Interest Receivable

Receivables primarily consist of interest accrued on investments. In addition, certain securities were purchased with accrued interest. At June 30, 2004 the Pool had \$39,387,997 of interest receivable of which \$1,055,189 represents accrued interest purchased. At June 30, 2004, the SPI portfolio had \$6,172,760 of interest receivable and there was no accrued interest purchased.

Note 5 – External Investment Pool

The Treasury maintains the Pool, which includes all funds deposited by County entities and external legal entities. The purpose of the Pool is to provide safe, liquid investment opportunities for pooled surplus funds deposited into the County Treasury. Earnings on Pool investments are allocated monthly to Pool participants by the Los Angeles County Auditor-Controller based upon each participant's average daily balance in the allocation period. Investment gains and losses are proportionately shared by the entities participating in the Pool as an increase or reduction in investment, net of administrative costs. Section 27013 of the California Government Code authorizes the Treasury to deduct administrative fees related to investments.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2004

Investments purchased with the intent to be held to maturity are accounted for in the non-trading portion of the Pool. Investments purchased with the intent to be sold prior to maturity are accounted for in the trading portion of the Pool. During the year ended June 30, 2004, the Treasury did not purchase any investments for trading purposes.

Note 6 – Specific Purpose Investment

The Treasury maintains the SPI portfolio to manage specific investments requested by specific entities with the approval of the Treasury. Investment income/loss distribution is credited/debited to the specific entity for which the investment was made.

Note 7 – Other Specific Investments

Other Specific Investments represents assets held by the County Treasury pursuant to State Code and a court order, and totaled \$201,931,994 at June 30, 2004.

This amount is comprised, in part, of \$201,629,564 in U.S. Treasury bills, and held in the Treasury's Special Safekeeping Account II. The funds were deposited by Phillip Morris USA Incorporated to stay enforcement, pending appeal, of two judgments by the Superior Court for the County of Los Angeles. The remaining \$302,430, also in U.S. Treasury bills, are held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.

Note 8 – Prior period adjustments

The Treasury recorded an adjustment to the beginning net assets balance as of June 30, 2003 to include interest receivables for the Pool and SPI of \$32,961,672 and \$9,126,772, respectively, as interest was earned and receivable at June 30, 2003 and should have been recorded as an asset under the accrual basis of accounting. In addition, an adjustment was made to beginning net assets for Other Specific Investments of \$197,677 at June 30, 2003, to accurately reflect the fair value of those investments.

Note 9 – Change in Accounting Principle

For the year ended June 30, 2004, the Treasury is presenting certain assets held by the County as Other Specific Investments on the Statements of Net Assets and Changes in Net Assets, which is another acceptable presentation under generally accepted accounting principles. See Note 7. In prior years, the Treasury presented these assets in an agency fund.

Note 10 – Subsequent Events

Capital Asset Leasing Corporation Bond Anticipation Notes

On August 24, 2004 and December 15, 2004 the LACCAL issued \$5,000,000 Bond Anticipation Notes with initial interest rates of 2.29% and 2.96%, respectively. On February 18, 2005 the LACCAL issued \$10,000,000 Bond Anticipation Notes with an initial interest rate of 3.39%. The rates are adjustable on January 2 and July 1 of each year. The notes were purchased by the Pool and are due on June 30, 2007. Proceeds of the notes are being used to purchase equipment. The notes are to be repaid from the proceeds of lease revenue bonds.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Supervisors
County of Los Angeles, California

We have audited the basic financial statements of the Los Angeles County Treasury, as of and for the fiscal year ended June 30, 2004, and have issued our report thereon dated March 6, 2007 which included an explanatory paragraph on a restatement to the Treasury's beginning net assets and an explanatory paragraph on a change in accounting principle. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Treasury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Treasury's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to Treasury management in a separate letter dated March 6, 2007.

This report is intended solely for the information of the Treasury's management and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California

March 6, 2007



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**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE
WITH GOVERNMENT CODE SECTIONS 27130 THROUGH 27137**

Board of Supervisors
County of Los Angeles, California

We have examined the Los Angeles County Treasury's compliance with California Government Code Sections 27130 through 27137, which addresses requirements of the Treasury Oversight Committee, during the year ended June 30, 2004. Management is responsible for the Treasury's compliance with those requirements. Our responsibility is to express an opinion on the Treasury's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Treasury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasury's compliance with specified requirements.

In our opinion, the Treasury complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2004.

This report is intended solely for the information of the Treasury's management and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
March 6, 2007

LOS ANGELES COUNTY TREASURY

Report to Management

For the Year Ended June 30, 2004



MACIAS GINI & O'CONNELL LLP
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March 6, 2007

County Board of Supervisors
Los Angeles County, California

In planning and performing our audit of the basic financial statements of the Los Angeles County Treasury (Treasury), for the year ended June 30, 2004, we considered the Treasury's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal accounting controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Treasury's internal control in our report dated March 6, 2007, in conjunction with our audit of the Treasury's basic financial statements for the year ended June 30, 2004. This letter does not affect that report.

This report is intended solely for the information and use of the Board of Supervisors, the Treasurer's Oversight Committee, and Treasury management and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Treasury personnel and have included management's responses to our recommendations in the attached memorandum. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Macias Gini & O'Connell LLP

Quarterly Reviews

California Government Code Section 26920 requires the county auditor to review the Treasurer's Statement of Assets in the County Treasury, at least once a quarter. At the beginning of our audit test work, we noted that completion of the quarterly reviews were delayed. Auditor-Controller management indicated that the quarterly reviews were delayed by staffing issues. However, as of the issuance of this report, the Auditor-Controller had completed all of the quarterly reviews through September 30, 2006.

Recommendation

Treasury and Auditor-Controller management ensure that the quarterly reviews of the Treasury's Statement of Assets are completed in a timely manner.

Management Response

As noted, the Auditor-Controller has completed all of the quarterly reviews that were delayed, and is completing the review for the quarter ended December 31, 2006. In addition, based on recent changes in State law and the County Code, TTC and the Auditor-Controller are evaluating contracting for the quarterly reviews.

Trade Tickets

MGO noted that securities which are "called" by the issuer do not have an associated trade ticket documenting relevant information on the transaction. Trade tickets are prepared for all other securities bought and sold by the Treasury, however, "call" transactions are only documented by a fax that is received from the issuer stating that the security will be called on a certain date.

Recommendation

Treasury management should consider preparing trade tickets for callable securities when "called" to adequately document relevant information on the call transaction and for consistency with all other investment transactions.

Management Response

We agree with the intent of the recommendation. However, the Treasury's Internal Control Group uses trade tickets to document only purchase and sale transactions. Called securities are forced maturities that are initiated by the issuer of the security. The Treasury's Internal Control Group's practice is to ensure every called transaction is consistently documented by a faxed notification from the Treasury's custodian, Bank of New York. This notification is reviewed by staff and subsequently by management. We believe this practice satisfies the intent of the recommendation.

Documentation of Review and Approval

MGO noted several investment transactions where the trade ticket and/or delivery instruction was not properly signed by the Treasury's Internal Controls Section indicating review of the investment purchases. However, none of the transactions noted were out of compliance with the Investment Policy. MGO also noted instances where the Treasury's Return of Cost book was not

properly signed by the Internal Controls Section, indicating a review and approval of investment transactions recorded in the Return of Cost book. In some instances, it appeared that the Return of Cost book had not been reviewed.

Recommendation

Treasury management ensure that all investment transactions are reviewed and approved by signing off on all trade tickets and by signing off on the Return of Cost book.

Management Response

The Treasury's Internal Control Group's practice is to document an initial review and a management review of all trade tickets/delivery instructions and a staff review of the Return of Cost book. The auditors identified three trade tickets which did not contain management review and eight Return of Cost accounting entries which did not contain a review. However, all trade tickets were in compliance with the Investment Policy and all Return of Cost accounting entries were appropriately recorded. Management has reiterated to staff the need to comply with these practices.